

Structured Finance



Opportunities in Credit – Capital Solution Transactions Strategy

Barclays Insurance Conference

November 2017



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Opportunities in credit

Banking regulation

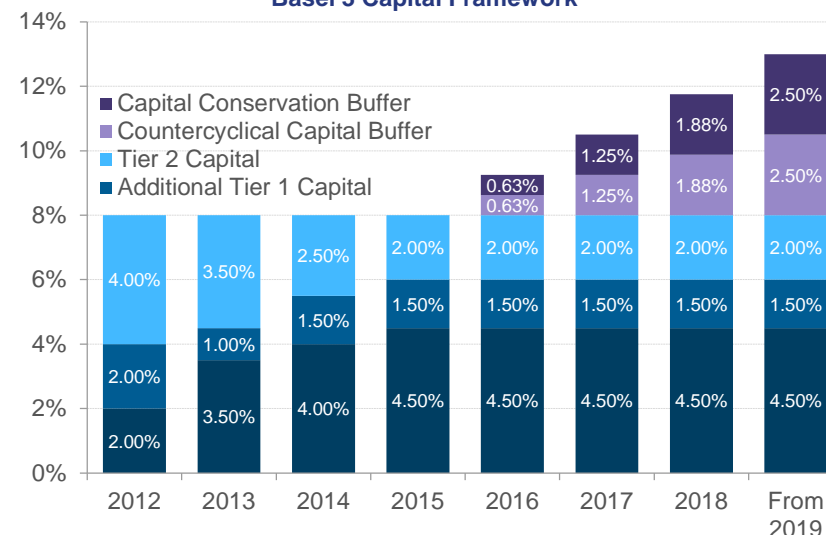
Regulatory pressure on banks to increase the size and quality of their capital :

- ▶ Basel 3 results in almost doubling bank capital base while improving its composition
- ▶ Basel Committee is currently reviewing capital charges models to close the gap between standard and internal models by introducing capital charge floors
- ▶ IFRS 9 aims at introducing provisioning of expected loss instead of incurred loss
- ▶ ECB has given guidance to provisioning NPL and to accelerate the clean up of European Banking system

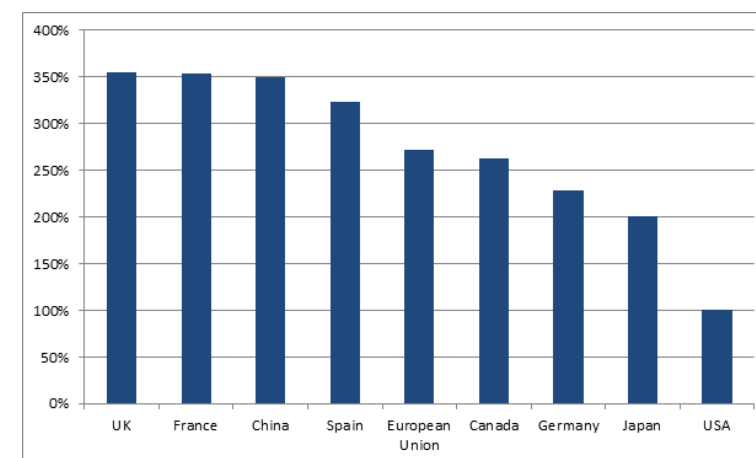
Bigger impact on European banks as European economy has traditionally been much more financed by banks than in the US

- ▶ Total European banking system represents nearly 3x European GDP vs around 1x GDP in the US
- ▶ Disintermediation trend is slow and does not equally impact all businesses
- ▶ Lending activity on core businesses is restarting with banks still being almost monopolistic in some areas

Basel 3 Capital Framework²



Bank Assets Size vs GDP¹



Historical market trends are not reliable indicators of future market behavior. Actual results may vary and the variations may be material. Past performance are not reliable indicators of future performance.

1. Source: Bloomberg, National banks, national statistics bodies

2. The New Basel III Framework: Navigating Changes in Bank Capital Management. PwC's FSI, October 2010.

Opportunities in credit

Regulatory capital ratios

Bank regulatory capital ratio definition

- ▶ Regulatory capital is the capital amount required by bank regulators in order to maintain banking system solvability even in systemic stresses
- ▶ Under Basel framework, bank regulatory capital is depending on the riskiness of its balance sheet.
- ▶ Bank assets are then converted in Risk Weighted Assets (RWA)
 - by using risk weights given by the Basel Committee (Standardised Approach) or
 - by using bank internal models (Internal Rating Based – IRB – Approach)
- ▶ Bank capital is then compared to the RWA and shall meet a Minimum Threshold set by the regulator in order to maintain banking system solvability even in systemic stresses

$$\text{Capital ratio} = \frac{\text{Bank Regulatory Capital}}{\text{Risk Weighted Assets}} > \text{Minimum threshold}$$

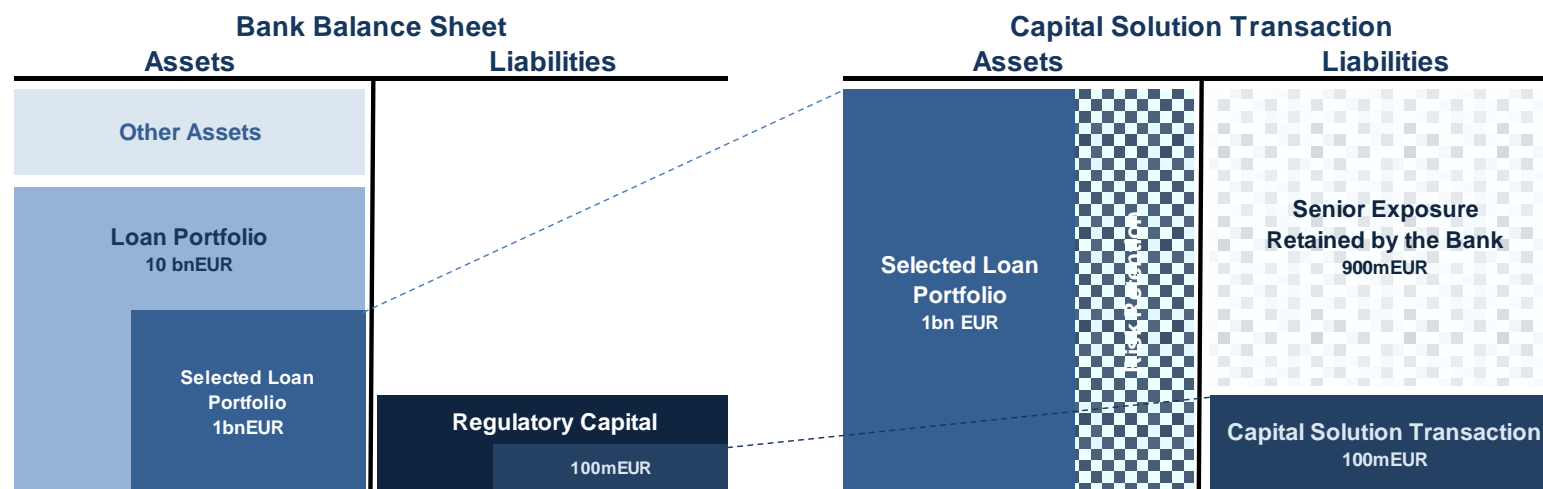
Capital Solution Transaction

- ▶ A Capital Solution Transaction is a bilateral or syndicated transaction with a bank seeking improvement of its regulatory capital ratios while continuing its commercial development.
- ▶ A Capital Solution Transaction will enable banks to decrease RWAs while keeping the bank regulatory capital unchanged
- ▶ RWA reduction is achieved through a credit guarantee provided by external investors on a specific portfolio

Opportunities in credit

Description of Capital Solution Transactions

- ▶ A Capital Solution Transaction provides the originating bank a guarantee amounting to the regulatory capital for a selected loan portfolio
 - Due to the difference in capital charge between the selected portfolio and the retained senior exposure, the bank may save up to 80% of RWAs
- ▶ Underlying loans remain on the bank's balance sheet.
 - The bank assumes the servicing of the loans (collecting payments, waivers, workout process if needed...)
- ▶ A Capital Solution Transaction takes the format of a Credit Linked Note (CLN) gathering
 - A protection agreement (either a bespoke CDS or a financial guarantee) defining the covered losses.
 - A cash collateral (either a deposit in the originating bank, deposit in a trustee bank or repo on government bonds).
- ▶ It has generally a maturity between 3 and 5 years.



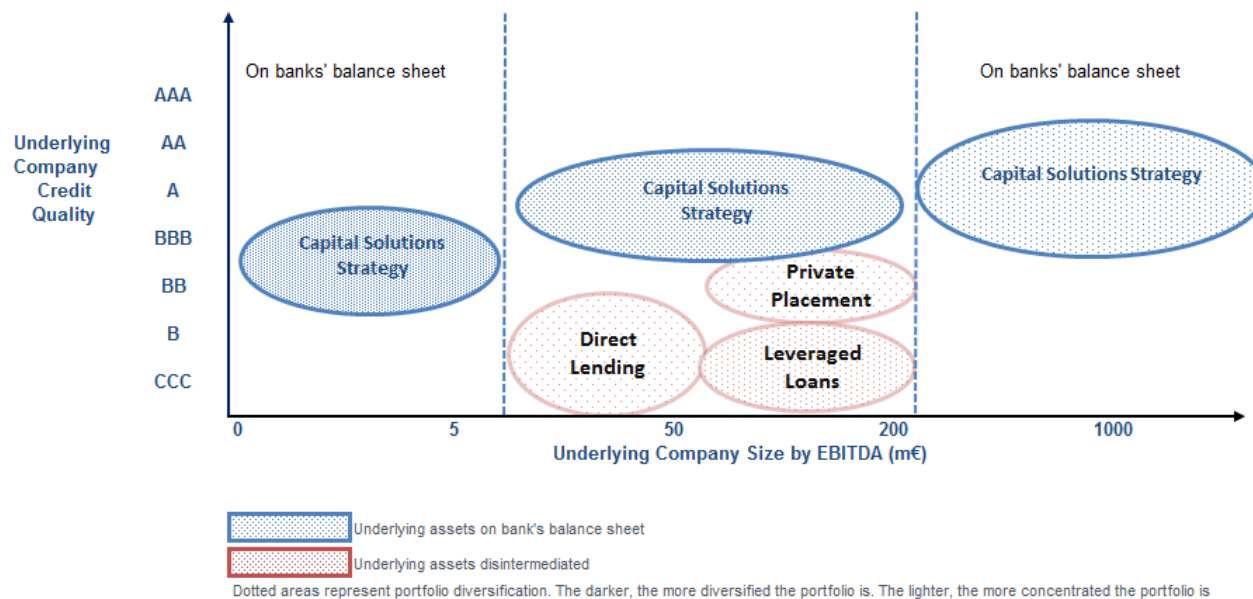
Source: AXA IM. Indicative only.

No assurance can be given that the strategy will be successful or that investors will not lose some or all of their capital.

Opportunities in credit

Underlying portfolios

- ▶ Only large commercial banks are issuing CST
 - They need to calculate their RWAs with an internal model in order to apply for a RWA relief
- ▶ CST are referencing core and performing portfolios
 - Corporate loans (SME, mid cap, large corporates) comprise around 80% of the underlying portfolios.
 - Remaining part of the market is comprised of trade finance, project finance...



Source AXA IM – For illustration purposes only.

Opportunities in credit

CST market

- ▶ CST give access to **diversifying credit portfolios**
 - Core and performing bank lending businesses
 - Representative of the US/European real economy
 - Only credit risk is transferred

- ▶ CST present **attractive unlevered returns**
 - Sponsored by the capital benefit obtained by the bank
 - High barriers for new investors to enter the market

- ▶ CST market currently stands at **€5-7bn issuance per year¹**
 - Spreads are stable in the 8% to 12% context over the last years

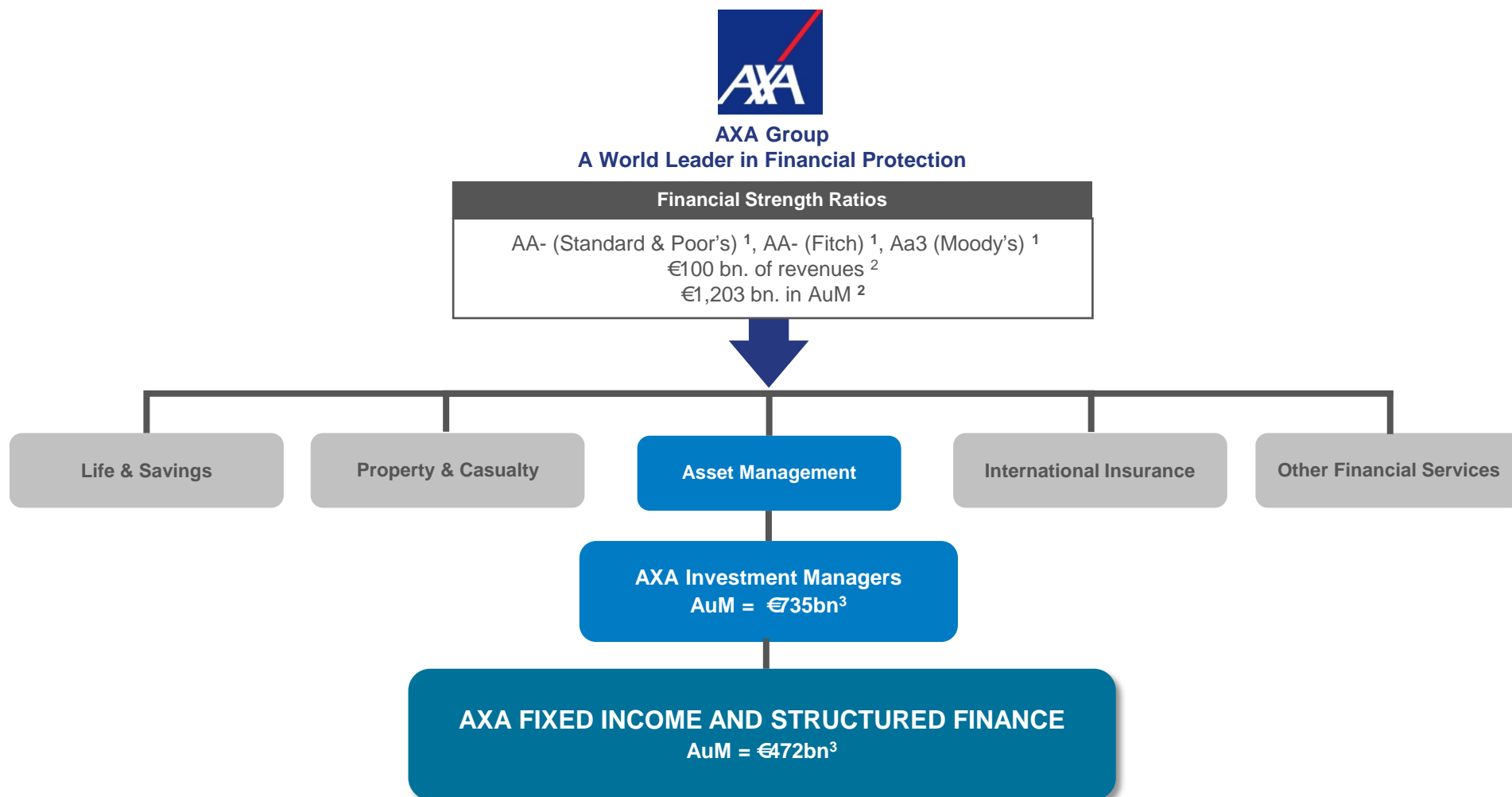
¹ AXA-IM estimate

Appendix

- ▶ **Presentation of AXA Investment Managers**
- ▶ Detailed Comparison between CST and Alternative Lending
- ▶ Contacts

AXA IM - Fixed Income and Structured Finance

Part of a strong financial group where asset management is core



AXA IM - Fixed Income and Structured Finance

Overview

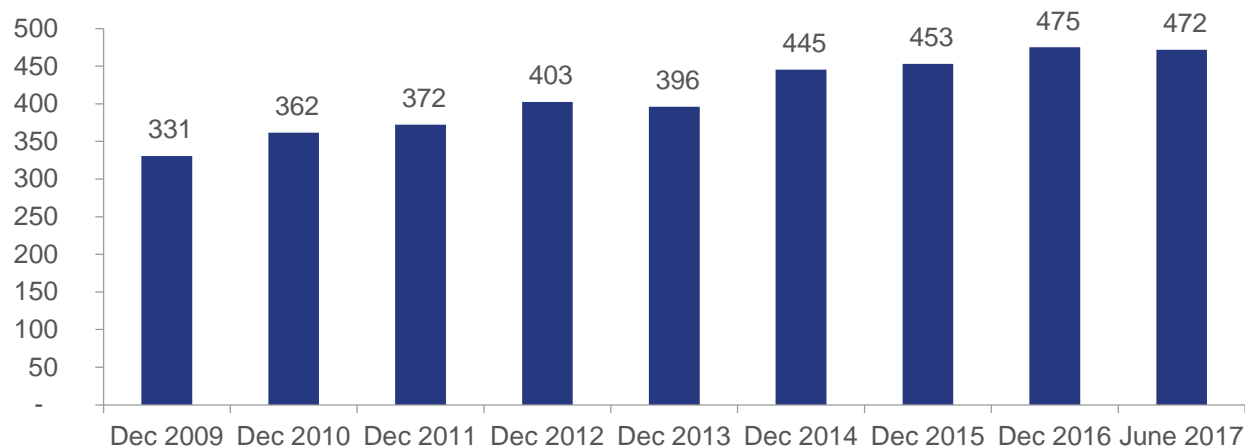
The advantages of a combined platform

- ▶ Combines the benefits of a stable, global organisation with multi-local knowledge and expertise
- ▶ A wide range of expertise aimed at answering client needs in an ever changing market environment
- ▶ Investment process aims to achieve strong performance within a robust risk monitoring framework

Assets under Management (€bn)

- ▶ Continuous growth in AuM demonstrates resilience across credit cycles

AXA IM – Fixed Income and Structured Finance Historical AuM¹



Money Markets
Government Bonds
Inflation
Aggregate
Investment Grade Credit
High Yield Credit
Emerging Markets
Short Duration
Global Strategic
SmartBeta
Loans and Private Debt
Securitized & Structured Assets

Source: AXA IM as of 30-June-2017.

AuM: Assets Under Management.

1. Includes joint ventures.

AXA IM - Structured Finance

Investment aims

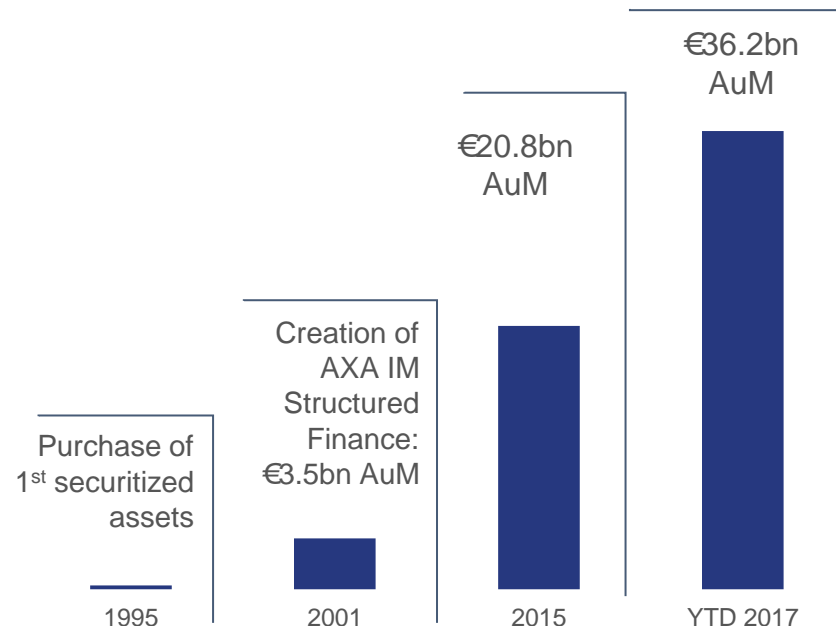
- ▶ Source quality assets
- ▶ Deliver potential stable cash flows in line with client objectives
- ▶ Attractive relative value in a low-yield environment

Fundamental approach

- ▶ Fundamental approach to credit analysis and selection
- ▶ Active trading to create value
- ▶ Expertise in structuring to tailor risk-return profile

Established team

- ▶ Continuity of top management team: 4 of 6 managers have worked together at AXA IM Structured Finance since 2003
- ▶ Average capital markets experience of top management team and portfolio managers: 17 years



Solid experience over 2 credit cycles

AXA IM - Structured Finance

Access opportunities in US & Europe via a variety of structures

Head of Structured Finance: Déborah Shire

LOANS & PRIVATE DEBT €9.6bn

Heads: Jean-Philippe Levilain / Renaud Tourmente

Business development: Laurent Cézard

SECURITIZED & STRUCTURED ASSETS €26.6bn

Heads: Alexandre Martin-Min / Christophe Fritsch

Business development: Cyril Paillard

Leveraged loans

Private Debt

ABS

CLO

ILS

Mortgages
-
Specialty
Finance

Bank
Capital
Solutions

Alternative
Credit

Fund of
Hedge
Funds

Impact
Investing

Structuring & Business Development

Head: Christophe Fritsch

CIO Office

Head: Alexandre Martin-Min

PERFORMANCE DRIVERS

Traded assets teams

- ▶ Credit analysis
- ▶ Relative value / allocations
- ▶ Active trading / valuation
- ▶ Portfolio management

Illiquid assets teams

- ▶ Credit analysis
- ▶ Sourcing / origination / valuation
- ▶ Portfolio construction
- ▶ Structuring

360° view: strong understanding of market dynamics and participants,
and of relative value

AXA IM - Structured Finance

Broad product range supports focus on relative value

€36.2bn

STRUCTURED FINANCE AuM

€9.6bn in Leveraged Loans and Private Debt;
€26.6bn in securitized and structured assets

89

PROFESSIONALS

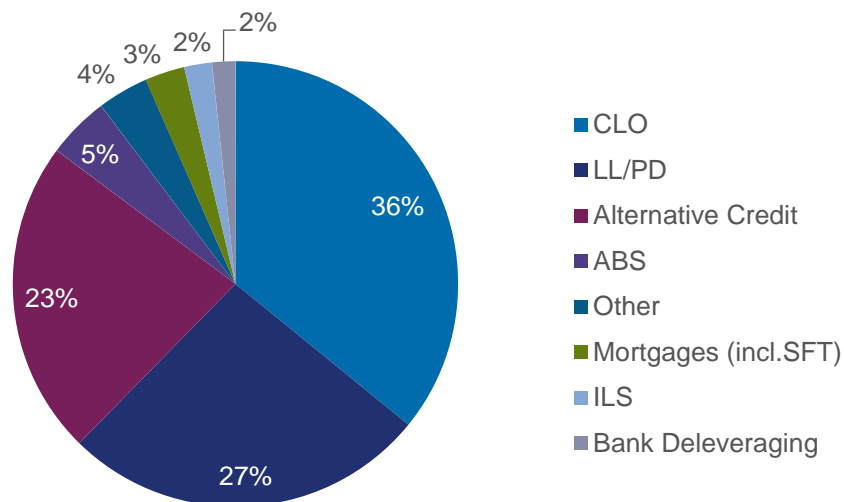
In Europe (Paris/London) and the US with
experience in capital markets and financial
services¹

100+

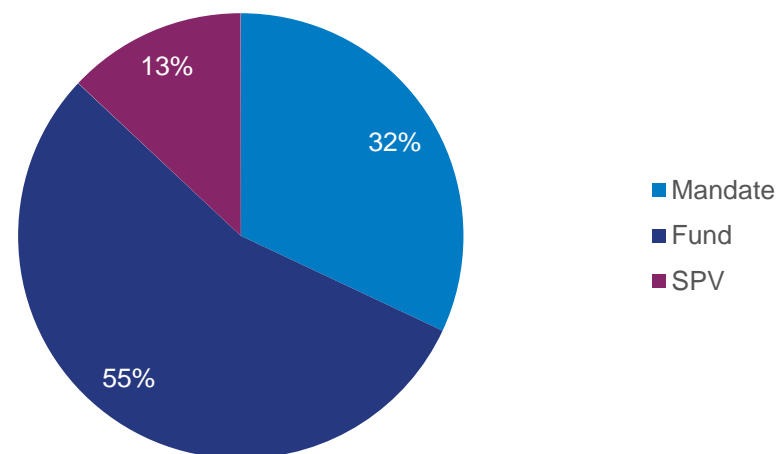
CLIENTS

Including pension funds and insurance
companies in the US and Europe

Asset Classes



Vehicle Type



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Detail Comparison between CST and Alternative Lending

Capital Solution Transactions, a complement to direct lending

	Direct Lending	Leveraged Loans	Private Placement
Disintermediated (Y/N)	Y	Y	Partially Y
Credit Quality	BB-B	BB-B	A-BB
Underlying Company Size (EBITDA in m€)	5-50	50-200	50-200
Exposure Seniority	Senior / Unitranche / Mezzanine	Senior	Senior
Secured/ Unsecured Exposure	Secured	Secured	Unsecured / secured
Portfolio Diversification	20-50 companies	40-70 companies	20-50 companies
Unlevered Return (pa)	6-8%	Euribor+4.5%	Euribor+1.5-3.5%

CST SME	CST Mid Cap	CST Large Corporate
N	Mainly N	N
BBB-BB	AA-BB	AA-BBB
< 5	5-200	> 200
Senior	Senior	Senior
Unsecured / secured	Unsecured / secured	Generally unsecured
Thousands of companies	From 150 to several thousands depending on company size	100-150 companies
Euribor + 8-10%		

Source : AXA IM - For illustrative purposes only

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- ▶ Executive Summary
- ▶ Investment Strategy
- ▶ Manager Overview
- ▶ Investment Process

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Contacts

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